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SOURCE Planovoye Khozaystvo, No 3, 1948. (Translation requested.)CUTTING DISTRIBUTION COSTS IN THE USSR

The program of the Five-Year Plan requires great investments in capital construction for industry, agriculture, and transportation. The source for these investments is the internal accumulation of the socialist economy. Along with cutting production costs, one of the most important ways of increasing socialist accumulation is the cutting of distribution costs.

Cutting distribution costs will make possible the release, for use in production, of large amounts of money, materials, and labor from the distribution network. This will result in a more rapid increase in the social product, and a faster rate of building socialism.

Distribution costs are low in the USSR as compared with distribution costs in capitalist countries. In 1940 distribution costs in Soviet trade were only about 10 percent of the value of retail trade turnover. One reason for this is that in the USSR few persons are engaged in trade. There were about 2 million persons in the USSR employed in trade before the war, or about 7 percent of the total number of workers and office employees, as compared with 6 million persons employed in trade in the US in 1940 (not counting owners of enterprises), or 18 percent of the total number of workers and office employees.

In the USSR, in the same year, there were 12 trade workers per 1,000 persons, as compared with 40 in the US, or 47, if small salesmen-owners are included.

In the US, even in 1929, the average turnover time of goods was 96 days. In the USSR before the war it was less than 30 days. The brevity of the turnover period means a saving in expenditures for storage and sale in the trade network and better utilization of the labor of the trade workers.

Speeding up the distribution of goods is an important factor in speeding up the tempo of the building of socialism. As the turnover time of goods is cut, the amount of means (particularly of money) required for distribution, becomes correspondingly less. When the returns from trade are turned back rapidly into industry, the amount of working capital which must be invested by industrial enterprises in stocks of finished goods may be decreased.

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Planning the production and distribution of goods in the USSR economy makes it possible to cut distribution costs with respect to all basic expense items. Planning the varieties of production in accordance with the needs of the population, taking into consideration the different requirements of the urban and rural population in the various sections of the country, and noting the seasonal demand for certain goods will result in the goods being realized more rapidly and in a reduction of storage expenses.

Savings in transportation costs may be effected by locating industry close to the consumer. Planning the transportation of consumer goods will eliminate excessively long hauls and crosshauling, and make possible the most efficient utilization of the various kinds of transport, thus further reducing transportation costs.

In planning the volume of retail trade for various sections of the country the monetary income of the population is taken into consideration to avoid having an excess of goods in any one area.

The purpose of planning the wholesale and retail trade system is to assure correct disposition in accordance with the volume of trade, to eliminate excess middleman trade agencies, and to speed up the movement of goods. In order to maintain strict control over expenditures for distribution, and to stimulate their reduction as much as possible, the government is putting into effect a plan for distribution of expenditures. This plan is a government order (zadaniye) defining the amount of expenditures for distribution necessary for normal organization of trade in the country.

Price-fixing with respect to consumer goods in the state and cooperative stores is important in Soviet trade. By means of it the Soviet government determines the share of the social product received by trade. By means of the price reduction (skizka), the government provides an incentive for economy and makes it impossible for trade organizations to charge consumers high prices to cover high distribution expenses.

Trade costs have been lowered considerably during the Five-Year Plans. The volume of retail trade, in comparable prices (sopostavimyye), in the USSR in 1940 was 4.5 times the volume in 1928, while the retail trade network was 2.5 times as large as in 1928. This means that the turnover per enterprise almost doubled in the 1928-40 period. During the same period the number of workers in retail trade merely doubled, which means a considerable increase in the amount of trade per worker.

During the years of rebuilding the USSR national economy, after World War I, distribution costs in trade amounted to more than 20 percent of the value of retail trade turnover because the share of small private trade was large and costs high, goods had to pass through many hands before reaching the consumer, and overhead costs in state and cooperative trade were high.

Eliminating private capitalist trade and assuring the predominance of the socialist type of economy in distribution made possible a considerable reduction of distribution costs in the trade network.

From 1932 through 1940 distribution costs in USSR trade decreased from 12.5 kopeks per ruble of trade to 9.8 kopeks, or 18 percent. The importance of this cost cutting may be judged by the fact that where cost cutting by one person in 1940 meant an economy of 140 million rubles, the extra savings through lowering distribution costs amounted to about 2.5 billion rubles compared with 1932.

A socialist economy has low advertising expenses. In the US, 1.5 billion dollars, or about 10 percent of distribution expenses, are spent for advertising, while 1940 advertising expenses in retail trade of the Ministry of Trade averaged only 0.5 percent of total expenses.

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Marx divided capitalist distribution costs into "pure" costs -- expenses connected with turning commodity assets into monetary assets -- and expenses connected with continuing the process of production in distribution (transportation, building up the required stocks of goods, etc.).

The cost of turning goods into money in Soviet trade is small, comprising only a small part of total costs. Distribution costs are composed primarily of the continuation of production expenses in distribution (transportation, storage, packing, etc.). Wages paid to trade workers, occupied directly in the sale of goods, comprise only one third the total wage bill for trade workers and only 10 percent of all distribution costs. Furthermore, a large part of the workers' time is spent in packing, weighing, and measuring goods. Transportation expenses alone comprise as much as 25 percent of the total distribution costs.

Wholesale costs are low in proportion to retail costs in a socialist economy. While wholesale trade costs in the US are 35 percent of total distribution costs, wholesale trade costs in Soviet trade do not exceed 20 percent of total distribution costs.

Decreased distribution costs in the USSR are accompanied by better service to the customer. Outlay for final preparation of goods for sale (podrabotka) and improved packaging is relatively larger; a greater proportion of expenditures is for upkeep of stores and for making trade organizations artistic in appearance. USSR advertising has been created solely to inform consumers honestly about the best products.

With all its accomplishments, Soviet trade still has not cut expenses to the minimum.

During World War II, despite substantial reduction in the types of trade expenditures, distribution costs increased relative to trade turnover in comparison with 1940. This was the result of reduced trade turnover, and additional costs due to the ration card system. Increased distribution costs were also partially the result of the creation in industrial enterprises of a trade network which had higher distribution costs. The trade organizations of the OES (Workers Supply Section) have a small trade network with a limited number of customers serviced by any given store; and, in most cases, this number is insufficient for the normal operations of a trade enterprise. The retail trade expenses of OES exceeded the expenses of the trade network of the Ministry of Trade USSR by 30-35 percent.

Another cause of high costs during the war was slow turnover of goods because of the ration card system. While the turnover period for food supplies, excluding bread, in enterprises of the Ministry of Trade was 13.4 days in 1940, it was 21.4 days in 1945. The turnover time of goods other than food supplies increased from 41.4 days in 1940 to 61.3 days in 1945.

After World War II, distribution costs in Soviet trade continued to be high, primarily because of retention of the ration card system. In 1947, the distribution cost in comparable prices was 1 1/2 times the prewar cost.

The abolition of rationing at the end of 1947 created favorable conditions for a considerable reduction in distribution costs by speeding up the turnover of goods and utilizing labor more effectively.

In 1948 the volume of trade is increasing, which means that the ratio of distribution costs to volume of trade should be decreasing. The following percentage figures from the Report of the State Planning Commission USSR show how the sale of food and industrial goods, in the second quarter of 1948, compares with the sale of the same commodities in the same period of 1947.

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Increase of 2d Quarter 1948 Sales  
Over 2d Quarter 1947 Sales

<u>Commodity</u>	<u>Percentage</u>
Bread	50
Sugar	83
Meat products	29
Vegetable fat	14
Confectioner's products	29
Cotton fabrics	38
Silk fabrics	34
Leather footwear	31

At the beginning of 1948 the USSR Government took steps to decrease the number of selling hours for the whole trade network. The single shift with days off was introduced in most stores. This made it possible to release a large number of workers from the trade network and to cut maintenance costs. Despite these favorable conditions, distribution costs for trade organizations were not lower in the first half of 1948 than in the corresponding period of 1947; instead, they remained excessively high. The distribution costs of some enterprises have even risen, as is shown in the following table:

Expenditures for Retail Trade Distribution

	<u>Jan-Jun 47</u>	<u>Jan-Jun 48</u>
	(in kopeks per ruble of turnover in prices)	
Local organizations, Ministry of Trade RSFSR	4.05	4.22
Local organizations, Ministry of Trade Kirghiz SSR	4.95	5.35
ORS Ministry of Heavy Machine-Building Industry	3.34	3.58
ORS Ministry of Machine-Tool Building	3.80	3.85
ORS Ministry of Gustatory Products Industry	3.11	4.14

Rural trade distribution costs of consumer cooperatives increased during the first quarter of 1948 from 9.2 percent of the value of retail trade to 10.3 percent.

To some extent the increase of distribution costs, in comparison with 1947, was the result of changing the trade structure and of increasing the relative share of food in the total volume. However, the main reason for high distribution costs in retail trade is the large nonproductional expenditures and losses. For example; during rationing excessively high transportation costs and trade losses were partially concealed by the relatively large proportion of nonfood items, of which the cost of marketing is comparatively small. With the shift to normal trade structure, expenditures for these items have been increasing. Distribution expenses must be cut by increasing the productivity of labor, cutting administrative expenses, lowering transportation costs, and reducing goods losses. These items account for two thirds of the total distribution costs, as can be seen from the following figures:

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## Trade Distribution Costs for 1947

	<u>Retail</u>	<u>Wholesale</u> (Industrial Ministries)
	(in percentage of total cost)	
Transportation	21.5	52.0
Wages and extra pay	37.3	8.1
Rent, maintenance, repair, inventory	13.6	4.0
Storage, final preparation of goods for sale, packaging (including losses of containers)	2.8	8.0
Goods losses	6.1	7.0
Interest on credit	5.3	3.9
Administrative, etc.	<u>13.4</u>	<u>17.0</u>
Total	100.0	100.0

The labor productivity of trade workers is still less than prewar. At the same time the wages of trade workers have risen considerably, resulting in an increase in the wage bill per ruble of turnover, in comparable prices. As has been previously observed, the decrease in labor productivity of trade workers is partially due to the size of the ORS's small-trade network with its small turnover per enterprise.

However, the main reason for the insufficient labor productivity of trade workers is the presence of surplus personnel in the trade network. Despite the fact that trade enterprises have changed over to the single shift with days off, which ought to have released a large number of workers from the trade network, the number of retail trade workers in the Ministry of Trade USSR increased by 10,000 persons between December 1947 and July 1948. This increase occurred in connection with expansion of the delivery system during the first 6 months of 1948. Inspections of the work of several stores show that the trade enterprises could have secured an increase in the small-retail network by transferring to it those workers who were released from the stores in connection with the change-over to the single shift with days off.

An inspection conducted by the Administration of the Food Enterprises of Leningrad has revealed surplus personnel in stores, and a disparity between the number of positions and the volume of trade, on the one hand, and the number of employees on the other. For example, in three stores of the Smol'ninskii Rayon Food Organization, inspectors found that it would be possible to cut staffs 20 to 25 percent.

In some stores there is an excessively large servicing and administrative unit, in some cases comprising more than half the total personnel. Important reasons for decreased labor productivity include poor planning for the trade network, setting up trade centers not warranted by the volume of trade, too many stores in some areas and too few in others, etc. In other cases, administrative employees could be cut by combining two or three small enterprises in the same area.

With respect to the number of employees, planning by trade enterprises is poor. The work to be performed per worker is usually determined mechanically by dividing the amount of planned trade by the actual number of workers.

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Control by the local agencies of the Ministry of Trade USSR over the amount of work planned per trade worker in the individual enterprise is completely unsatisfactory, especially with regard to the trade system of ORS and the consumer cooperatives. The plan norms for salesmen's work, with regard to some of the most important goods, are not observed in quite a number of enterprises. The standard norms, themselves, should be reconsidered in the light of increased trade.

Many enterprises fail to utilize even the simplest machine labor.

The exercise of control by the trading organizations, over the use of the wage fund in the stores, is completely unsatisfactory. There are cases of illegal increases in salaries, payments of extra premiums, and incorrect calculation of piecework wages. Directors and acting directors, who do not bear material responsibility, are wrongly paid according to the rate for directors and acting directors who do bear material responsibility. When the plan of trade turnover is not fulfilled, the full rates of pay are sometimes paid instead of the official guaranteed minimum, etc.

After wage costs, the second most important item of distribution cost is that of transporting goods to the trade network. More than 70 percent of all transport expenses in trade consist of expenses for automobile and horse-drawn transportation. The proportion of such expenses to trade turnover is one and one-half times that of 1940 (using comparable prices).

Increase in such transportation costs is primarily the result of inefficient utilization of automobiles belonging to the trade organizations; the fact that too much time is spent waiting at the suppliers; and because hauling, is falsely registered as having been performed. During 1947, trade enterprises of the Ministry of Trade USSR spent 80 million rubles too much on automobile and horse-drawn transport, while the trade network as a whole had extra transport expenses of 400 million rubles.

Trucks in the urban trade system are not yet utilized properly; they are employed in the transport of freight only 25 to 30 percent of their total working time. Most of the trucks make only one, or a maximum of two, trips per day instead of the required three or four. At the same time only 70-80 percent of the load capacity, sometimes even less, is used. As a result, the cost of transporting freight by truck has increased considerably. While the average cost of truck transportation of the best transport organizations is 80-100 kopeks per ton-kilometer, that of many costs 2 to 3 rubles, and that of some 4 to 5 rubles.

Inspections of supply bases, conducted on a wide scale, reveal that trucks are not loaded to capacity. For example, at Base No 1 of the Moscow Cold Storage Plant, the average load of sausage products per machine is 0.8-1.0 ton, although the capacity per truck is 1.5-2 tons. According to figures of the marketing office of the Brewery imeni Badayer, Moscow, a large number of trucks were loaded to only 65 or 70 percent of capacity.

One reason for increased transportation expenses in trade is the long waiting period of trucks at the suppliers. Trade-organization trucks, arriving for goods, start forming long lines early in the morning at food industry enterprises and trading bases, mills, cold storage plants, meat combines, confectioneries, breweries, and distilleries. The total standing time of trucks, exclusive of that spent in loading or unloading, is several times that spent in transit. For example, an inspection of the Brewery imeni Badayer revealed that in one day there were 57 cases in which trucks stood for more than 2 hours, and in 15 of those cases standing time was more than 4 hours.

The marketing organizations of the ministries of light industry and of the food industry are not reliable in their deliveries to trade organizations. Many large trade bases do not have drop-delivery schedules.

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The supplying ministries have severely curtailed circuit drop-deliveries of goods to the trade system by the supplying ministries' transport, although this system of delivery is the most efficient way of delivering goods to large cities. The system has been retained for bread only, in Moscow, Leningrad, and Kiev, and in certain individual cases for such goods as wine and distillery products, beer, meat, and fish products.

When the trade network is broken up into individual independent trade organizations with relatively small stocks of goods, only drop-delivery by suppliers can attain the most efficient use of truck transport. In large cities it is now possible to organize circuits for the delivery of beer, wine and distillery products, meat, fish products, and fats from cold storage plants to the trade network, or of flour and groats from the Zagotzerno mills. This could increase the utilization of the truck fleet at least 50 percent, and considerably improve the supplying of trade enterprises.

Circuit drop-delivery of goods, in the case of trade organizations servicing a large number of stores, can be successfully organized by trade transport. For example, centralized drop-delivery from the macaroni factory and the Chernigov Cold Storage Plant almost doubled the productivity of the trucks.

Control of transport in the trade network by the trade organizations is very unsatisfactory. Instead of supporting the struggle against idleness of workers, several trade enterprises have claimed hauling which did not take place. In some trade enterprises there has been considerable falsification of hauling figures. Thus, according to the data of Tsentrsoyuz, a store in the fishing section of Tsentrsoyuz in Moscow paid for the transport of 2,627 tons of freight in the first quarter of 1948, while only 404 tons, including the weight of containers, was actually carried. The Moscow store of the Ukrkoopsoyuz paid a freight transport bill 3.3 times what it should have been, and the store of the Tsentrmyasoptitsa Association paid a bill 7 times the proper amount.

Truck transport and horse-drawn transport expenses have also been too high because loading and unloading expenses have been high due to inefficient utilization of loaders. The labor productivity of trade-organization loaders is excessively low because of the current practice of having them accompany the trucks. This means that most of their time is spent on the move or in waiting to receive loads.

A check on the Moscow Meat Combine imeni Mikoyan revealed that trade-organization loaders were directly engaged in loading and unloading only 25-30 percent of the time and their average labor productivity was only a fraction that of the meat-combine loaders. The fact that transport vehicles of the suppliers do not make drop-deliveries also causes inefficient utilization of transport-organization loaders.

To cut transportation expenses, measures must be taken to improve the work of marketing organizations of the ministries of the food industry and of light industry. The food industry and light industry market bases must be moved as close as possible to the trade network, since lack of these bases in a number of large cities has forced trade organizations to transport small consignments of goods in their own trucks, sometimes for more than 100 kilometers, which increases transportation expenditures considerably.

Distribution costs may also be cut by decreasing goods losses. Large losses of goods in trade are explained primarily by defects in storage and by large losses during transportation. Trade organizations do not exercise proper control over the storage of food supplies. Goods losses above the norm amount to 300 million rubles a year.

At the same time, goods losses above the norm are almost nonexistent in the efficient trade enterprises.

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The size of permissible goods losses varies considerably for individual organizations in the same city. For example, in Moscow the permissible goods losses for the state trading food stores are 0.3-0.4 percent of the goods turnover, while for the trade network of consumer cooperatives they are 0.7-1.0 percent of the goods turnover. Such a large difference is explained primarily by storage defects in the city trade network of consumer cooperatives and by differences in listing goods losses.

The intolerable practice of mechanically calculating the goods-losses norm without taking actual losses into account persists in several trade organizations. Furthermore, it has been shown that the existing norms of natural losses could be reduced considerably. Food stores of Leningrad have shown that it is possible to cut goods losses 20-25 percent in comparison with the norms.

Goods losses may also be lowered by speeding up the turnover of goods, in comparison with 1942 when the norms of natural losses were established. With respect to boiled and half-smoked sausage, creamed meat, fish, herring, etc., the norms are considerably higher than actual goods losses revealed by findings of the Central Institute of Trade and Public Nourishment in 1940. The Ministry of Trade USSR must reconsider the high norms with the aim of cutting losses to a minimum, which will result in large savings.

Increased goods losses are also caused by the fact that the number of transit deliveries from the suppliers to the stores has been reduced. According to calculations of the Administration of Food Organizations of Leningrad, increasing transit hauling to the prewar capacity could reduce goods losses of the Leningrad food stores alone, 400,000 rubles a year.

Excessive costs in Soviet trade are also due to large losses of packing materials which amount to 200 million rubles per year. A large portion of all wooden and cardboard containers are received free by trade, i.e., the cost of containers and packing materials is borne by industry in the new price lists of retail prices. This has resulted in inefficient use of containers by trade workers. Trade enterprises often use wooden containers uneconomically. In the trade network of the Ministry of Trade USSR, up to 40 percent of all wooden containers are not returned. They have been used for fuel and light repair work.

The packing material situation is in a neglected condition. The trade enterprises have, for the most part, stopped repairing containers and send a large number of broken ones to the bases of the Main Administration for Wood Supply. As a result, containers are wearing out rapidly, and their period of use is brief, which is one of the main reasons for the shortage of containers. Even the life of the valuable barrel is several turnovers less than the period of service set for it. Sack losses are very large because of the markdown in the price of sacks. In trade organizations, careless use and nonrepair of sacks soon cause them to be put in a lower category, and frequently they are marked down two categories, which means a loss per bag of 35-40 percent of its cost.

Records of containers, according to category, frequently are not kept because so many come unmarked from industry. The directors of trade enterprises have reconciled themselves to the practice of receiving goods in nonstandard and in unmarked containers and do not present claims to industry. Industry, however, gets a large income from sacks by obtaining heavy fines from trade organizations for not returning containers. For example, "Zagotzerna's" profit on container operations amounted to 32 million rubles for the first quarter of 1948; of this, 11 million rubles was from fines for not returning containers and for poor-quality containers.

The main reason for high losses on containers, in Soviet trade, is that trade organization control over the way in which containers are received, stored, and sent out is weak. The currently effective 1932 instruction on reception and dispatch of containers is in need of revision.

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Large excess expenditures for the repair and maintenance of stores are tolerated in the trade network.

Under labor contracts in 1947, trade enterprises spent an intolerably large amount for repair and maintenance. In 1947 the repair and maintenance wage bill in retail trade and communal-nourishment enterprises was more than 300 million rubles, and it was only because of strong restrictive measures that the bill was cut to 45 million rubles in the first quarter of 1948. In contracts with private persons, labor has been paid, and certain materials and equipment have been obtained, at speculative prices and wage rates, all of which has considerably increased the cost of repair and maintenance of stores.

Contracts with private persons have been due to the insufficient development of the network of artisan cooperative artels, the secondary production of trade, and the excessively high cost of the services rendered by the artels. This high cost is explained by lowered production norms, large overhead expenses, and high profits of artels.

The work cost of secondary enterprises of the trade organizations, whose work is weakly controlled, is also excessively high. In the trade-equipment plant of the Administration of Food Stores of Leningrad, production norms are being fulfilled 400-500 percent. The profits of the subsidiary enterprises are clearly excessive and amount to 15 to 20 percent. Having become resigned to the artels' and secondary industries' inflation of service costs, directors of trade enterprises frequently do not require the local oblast executive committees to lower the rates of pay, and conclude contracts at the inflated prices. Many trading enterprises have ceased to verify carefully their rent and municipal service contracts with the housing administrations and tolerate large overcharges, especially with respect to water supply. The housing administrations are also raising the cost of municipal services.

Expenditures of the trade enterprises for guarding stores are also large. Since 1947, guarding of stores has been the function of special artels of invalid cooperatives instead of the trade enterprises themselves. In spite of government instructions the artels continue to increase expenditures for guarding. Guarding expenses in the trade network are greater now than when guarding was a function of the trade enterprises themselves.

Distribution costs are quite different in various retail trade systems. In the first quarter of 1948, distribution costs of republican stores of the Ministry of Trade USSR were from 3.7 kopeks per ruble of trade to 5.0-5.5 kopeks, while distribution costs of the offices of Glavosobgastrozoo (the Main Administration of Special Delicatessens) were 3.5-6 kopeks per ruble of trade. The retail trade costs of the ORS are still higher; for small enterprises they go up to 8-10 kopeks per ruble of trade.

Distribution costs of the urban network of consumer cooperatives are especially large. They are approximately 1½ times the costs of the state trade food stores in the same cities and amount to 6-10 kopeks per ruble of trade. The following figures show distribution costs in Moscow food stores during the first quarter of 1948 (in kopeks per ruble of trade):

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	State Trade (Trade network of food enterprises)	Cooperative Trade (Moscow City cooperative trade)
Transportation costs	0.8	0.8
Wages and extra pay	1.45	2.07
Rent, repair, maintenance	0.89	1.81
Packing materials, other expenses	0.20	0.27
Goods losses	0.33	0.69
Interest on credit	0.05	0.34
Other expenses	0.26	0.21
Total costs	3.98	6.19

In the urban trade network of consumer cooperatives, goods losses are high. Expenditures for the maintenance and repair of premises and for wages have increased considerably because of a decrease in the productivity of labor.

The Ministry of Trade USSR, Tsentrosyuz, and the Glavurs's/Main Administration of Workers' Supply/ of the ministries and other government agencies have relaxed their controls over the distribution expenditures of trade enterprises. During 1947, retail trade enterprises of the Ministry of Trade USSR permitted 560 million rubles more distribution expenditures than were planned, and in the first quarter of 1948, an additional 67 million rubles. The excess of distribution expenditures of the retail trade of consumer cooperatives was 330 million rubles in 1947 and about 150 million rubles in the first quarter of 1948.

Large excess distribution costs show up clearly in the financial positions of trade enterprises. In the first quarter of 1948, because of higher distribution costs, many trade enterprises operated at a loss, especially in the rural trade network and in the ORS trade network of the ministries and other government agencies. In individual Glavurs's, the number of enterprises operating at a loss is 20-30 percent of the total number. For example, in the first quarter of 1948, in the Glavurs of the Ministry of Gustatory Products Industry, 25 of the 62 retail trade enterprises were operating at a loss.

Even in such a well-organized trade network as the food stores of Leningrad, 10 percent of the total trade enterprises were operating at a loss in the first quarter of 1948.

The task of the trade workers is to cut distribution costs to a minimum in order to release hundreds of millions of rubles for reinvestment in the national economy of the USSR.

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